

21 September 1982

MEMORANDUM FOR THE RECORD

SUBJECT: Informal IG/IEP Meeting on the Pipeline,
20 September 1982

1. Principal attendees were Buckley, State; Norm Bailey, NSC; Marc Leland, Treasury; and Lionel Olmer, Commerce. The purpose of the meeting was to attempt to codify rules for exceptions to US denial orders; that is, to see if some type of formula could be devised to allow relief for companies or countries indirectly or "unfairly" hit by US enforcement measures against US or West European companies. Commerce presented a draft Memo for the President (attached -- "Sanctions Against the Soviet Union"), containing the following recommended formulation: "...for the present the coverage of TDO's not extend to such situations where the following three conditions are met:

- "a. Our investigations show clearly that the equipment or technology is for Free World projects and the participating parties provide end-use assurances to that effect;
- "b. Significant economic hardship to parties other than the denied party would result; and
- "c. The energy project is designed to reduce reliance on Soviet energy or to strive for energy independence."



2. Following considerable discussion (some of which is summarized below), Commerce's formulation was changed to read as follows:

- "a. NO CHANGE
- "b. Significant economic hardship to parties other than the denied party or parties would result, and the economic benefit to the denied party or parties would not be significant; and
- "c. The energy project would reduce the market for Soviet energy."



25X1 3. The primary change, in point b above, is an attempt to establish some kind of de minimus standard. The often-cited example of this is a billion dollar pipeline project in Australia that is being held up by a \$3 million sub-subcontract with Dresser France. This case carries strong arguments for allowing an exception. All cases, however, are going to be different -- and difficult -- and establishing hard and fast rules may be impossible. Buckley noted that the best that could be done would be to establish general rules; Commerce would still have many tough decisions to make. []

25X1 4. Conversation at the meeting lacked direction, although it did keep returning to the question of how to fine tune the sanctions without watering them down, or appearing to water them down, or having exceptions decisions smack of politics. Commerce argued that points a and c of their formulation were the most important; that is, that increasing energy production in the Free World was more important than punishment or teaching a lesson. Leland and the Defense rep, however, argued that rulings based strictly on this philosophy would make a mockery of the sanctions because the companies would still be shipping to the Soviet Union and we would now be saying that shipments everywhere else would be okay as well! In addition, Leland kept returning to the question of uniqueness: are we simply punishing US firms if the Soviets -- and the many other customers now affected by the denial orders -- can easily buy the materials elsewhere? It was Olmer's opinion that this question had already been dealt with, and discarded, but Leland stated he may write a memorandum for Secretary Regan arguing that the question be more formally addressed. []

25X1 5. My understanding is that the Commerce draft is now to be vetted by all agencies concerned and a final version is to be approved at the next SIG/IEP on the pipeline. Our involvement in a policy decision of this type would appear to be slight. The second paper -- the three tables listing various companies involved in current or possible future denial orders -- is for background only and will, according to Commerce, be continually updated as new information arrives. [] 25X1

[] 25X1
Deputy Chief, Western
Europe Division

Attachment: As stated

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